

STATEMENT OF:
CLYDE W. BARROW, PH.D.¹
CHAIR AND PROFESSOR, DEPARTMENT OF POLITICAL SCIENCE
UNIVERSITY OF TEXAS RIO GRANDE VALLEY
BEFORE THE
JOINT COMMITTEE ON COMMERCE
2016 REGULAR SESSION OF THE CONNECTICUT GENERAL ASSEMBLY
Held in the Legislative Office Building, Hartford, Connecticut, March 10, 2016

=====

Co-Chairs Hartley and Perone, and members of the committee, thank you for this opportunity to address the Joint Committee on Commerce regarding an issue that is already affecting the economic well-being of thousands of Connecticut workers and small business owners, as well as the state's 2 million taxpayers. Almost exactly one year ago, I released the results of a comprehensive market and economic impact analysis estimating the potential economic and fiscal impact of planned gaming expansions in Massachusetts and New York on Foxwoods Resorts Casino and Mohegan Sun Casino.² Since that time, New York has successfully awarded three resort casino licenses and, as I documented in my earlier report, two of those casinos will compete directly with Connecticut's two casinos. During the same time Massachusetts has opened a slot parlor, MGM Springfield has broken ground on a new resort casino, and the U.S. Department of Interior has issued a favorable land-into-trust decision for the Mashpee Wampanoag Tribe that will likely result in another resort casino in southeastern Massachusetts. All three of these new gaming facilities will be competing directly with Connecticut's two casinos for customers from western Connecticut, Massachusetts, and northern New England.

The Mohegan Tribal Gaming Authority and Mashantucket Pequot Gaming Enterprise are obviously concerned about the potential competitive impact of these new gaming facilities and, consequently, my company was retained to conduct a revenue displacement analysis and an estimate of the potential employment and revenue losses to the State of Connecticut that will likely occur as a result of competition from 4 to 5 new casinos and a slot parlor in Massachusetts and New York.

Professional Background

However, before reviewing my previous findings, let me offer a few words about my professional background and expertise in the gaming industry for members of the committee who may be unfamiliar with my work. I am a Professor of Public Policy and Chair of the

¹ Dr. Clyde W. Barrow is a Partner and General Manager of Pyramid Associates, LLC, a registered Massachusetts company specializing in market feasibility analysis (gravity modeling), economic and fiscal impact analysis, and survey research. He is Project Manager for the Northeastern Gaming Research Project.

² Clyde W. Barrow, *Mohegan Sun Casino and Foxwoods Resort Casino: Potential Impact of Gaming Expansion in Massachusetts & New York* (Westport, Massachusetts: Pyramid Associates, LLC, March 2015).

Department of Political Science at the University of Texas Rio Grande Valley (2014-present) and previously served as Director of the Center for Policy Analysis at UMass Dartmouth for 22 years. I have supervised or conducted research on nearly 400 public policy reports, both as an academic and as an industry and government consultant, including numerous reports on the leisure and hospitality sector of the New England economy, including casino gaming.

I have been studying casino gaming and particularly its economic, fiscal, and social impact in New England and the Northeast for 21 years. In 2004, I launched the Northeastern Gaming Research Project, which was established to provide policymakers, the general public, and the media with independent and objective research on casino gaming in the New England and Mid-Atlantic regions. In addition to articles that I publish in scholarly journals, the Gaming Research Project publishes an annual *Northeastern Casino Gaming Update*, which is widely recognized as an authoritative profile of the New England and Northeastern gaming markets – so much so that it was even cited as the basic data reference for Oxford Economics’ recent white paper, which I will comment on in a moment.³

Indeed, I regularly follow trends and developments in a variety of U.S. gaming markets, publish original academic research on casino gaming, and frequently analyze proposals for expanded gaming – most recently in California, Maine, Massachusetts, New Hampshire, New York, Oregon, Texas, and Wisconsin, where my company was retained by various state governments, tribal governments, and casino operators to conduct analyses of different regional and statewide gaming markets. I am also regularly invited to testify at state legislative and administrative hearings on gaming issues, including 5 of the 6 New England state legislatures, where my research has influenced gaming policy in several of those states.

CONNECTICUT GAMING: WHAT IS ABOUT TO GET CHANGE FOR CONNECTICUT?

While expanded gaming in the Northeast has already exerted significant negative revenue and employment impacts on Connecticut’s two casinos, these negative impacts have largely been generated by a proliferation of slot parlors, or in some cases, slot parlors with a few table games (e.g., Pennsylvania and Rhode Island). For the most part, these states’ gaming facilities do not have hotels and none of them offers the array of dining options, retail shopping, golf, and live entertainment venues that can be found at Mohegan Sun Casino or Foxwoods Resort Casino. However, the Northeastern gaming market is about to change significantly and in a direction that will further erode Mohegan Sun’s and Foxwoods Resort’s competitive advantage as the region’s premier destination resort casinos.

By 2018, however, Massachusetts and New York will likely be opening four destination resort casinos with a combined 9,300 slot machines, 377 table games, 1,415 hotel rooms with spas, retail shopping, gourmet dining outlets, an indoor water park, golf courses, and live entertainment venues. Every one of the four planned new casinos will be a direct competitor with Mohegan Sun and Foxwoods Resort, which both draw a significant number of their customers

³ Oxford Economics, *Analysis of Expanded Gaming in Connecticut* (Wayne, Pennsylvania, March 2016).

from Massachusetts, New York, Rhode Island, northern New Jersey, and northern New England.⁴

Table 1

Estimated Patron Origins by State, 2015: Foxwoods, Mohegan Sun, Twin River, Newport Grand, Hollywood, & Oxford						
	Foxwoods	Mohegan	Twin River	Newport	Hollywood	Oxford
Massachusetts	32.2%	18.3%	51.9%	44.1%	2.0%	2.0%
Connecticut	39.8%	59.9%	0.9%	0.8%	0.1%	0.0%
Rhode Island	11.0%	3.4%	45.1%	52.1%	0.1%	0.1%
New Hampshire	2.6%	1.1%	0.5%	0.2%	2.0%	9.9%
Maine	1.2%	0.3%	0.1%	0.0%	87.8%	86.2%
Vermont	0.5%	0.4%	0.0%	0.0%	0.3%	0.5%
New York	9.3%	12.7%	0.3%	0.5%	0.3%	0.2%
New Jersey	1.7%	1.4%	0.2%	0.1%	0.5%	0.0%
Other	1.7%	2.5%	1.0%	2.2%	6.9%	1.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Pyramid Associates, LLC. **Note:** The statistical margin of error for the Foxwoods, Mohegan Sun, Twin River, Newport, Hollywood, and Oxford surveys is +/- < 1%.

Once these four new resort casinos open in Massachusetts and New York, our revenue displacement analysis indicates that:

- the combined competitive impact of the planned new casinos in Massachusetts and New York will displace approximately \$570.0 million in gross gaming revenue from Mohegan Sun Casino and Foxwoods Resort Casino by CY 2019, the first full fiscal year of stabilized operations for four casinos modeled in this analysis (see Table 2).
- the combined competitive impact of the planned new casinos in Massachusetts and New York will displace approximately \$132.7 million in non-gaming revenue at Connecticut's two casinos, including \$39.1 million in lost food and beverage sales, \$26.5 million in lost hotel revenue, and \$67.0 million in lost retail, entertainment, and other revenue (see Table 2).

Table 2

Estimated Gross Revenue for Foxwoods Resort Casino, CY 2014 Thru CY 2019: Competitive Impact of Massachusetts & New York Casinos						
	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019
Connecticut Casinos (w/o MA & NY)	\$ 1,921,202,996	\$ 1,921,202,996	\$ 1,921,202,996	\$ 1,921,202,996	\$ 1,921,202,996	\$ 1,921,202,996
Total Displacement of GGR	\$ -	\$ -	\$ -	\$ 399,072,095	\$ 484,587,544	\$ 570,102,993
Total Displacement of NGR	\$ -	\$ -	\$ -	\$ 92,870,076	\$ 112,770,806	\$ 132,671,537
Total Revenue Displacement	\$ -	\$ -	\$ -	\$ 491,942,171	\$ 597,358,350	\$ 702,774,530
Connecticut Casinos (w/MA & NY)	\$ 1,921,202,996	\$ 1,921,202,996	\$ 1,921,202,996	\$ 1,429,260,825	\$ 1,323,844,646	\$ 1,218,428,466
Displaced Gross Revenue from CT Residents	\$ -	\$ -	\$ -	\$ 177,245,372	\$ 215,226,524	\$ 253,207,675
Reduction in State Revenue Sharing	\$ -	\$ -	\$ -	\$ 69,837,617	\$ 84,802,820	\$ 99,768,024

Note: 1. Revenue in 2014 constant dollars. 2. Assumes January 1, 2017 start date for MGM Springfield, Wynn Everett, Rivers Casino & Resort, and Montreign Resort Casino. 3. Assumes zero percent (0%) annual real growth in GGR through CY 2019.

⁴ Vermont, New Hampshire, and Maine.

- The combined displacement of gross gaming and non-gaming revenue from Connecticut to Massachusetts and New York will thus reach \$702.8 million in CY 2019 (see Table 2).
- These figures indicate that the opening of resort casinos in Massachusetts and New York is about to catalyze one the largest inter-state transfers of gaming revenue in recent U.S. history -- second only to the transfer from New Jersey's casinos to Pennsylvania's casinos from 2006 to 2014.

Furthermore:

- It is estimated that \$253.2 million (36.0%) of the revenue displaced from Connecticut's two casinos to the four new resort casinos planned for Massachusetts and New York will be spent by Connecticut residents living in the northern and western parts of the state, who will likely find MGM Springfield to be a comparable, but more convenient gaming facility. This revenue is certainly up for grabs depending on Connecticut's response or lack of response to Massachusetts' and New York's incursion into its gaming market.
- Our gravity model indicates that MGM Springfield will be the single largest cause of this revenue displacement, because of its location near Connecticut's northern border and its ability to draw customers from the densely populated and more affluent regions of North Central and Western Connecticut.
- In fact, MGM Springfield's own revenue forecasts and marketing strategy, as submitted to the Massachusetts Gaming Commission, are explicitly based on the claim that it will capture a significant portion of its total revenues from Connecticut residents.⁵ Thus, it might strike one as ironic that MGM Springfield and its consultants have now suddenly reversed course by issuing a report that purports to be concerned about maximizing "economic benefits for Connecticut."⁶ Notably, however, MGM Springfield's Oxford Economics report does not make one reference to these findings or their significance to the Connecticut gaming market.
- It is also estimated that the State of Connecticut will lose nearly \$100 million annually by CY 219 in revenue sharing payments from Mohegan Sun Casino and Foxwoods Resort Casino if it does not respond to this competitive threat.⁷

⁵ Blue Tarp Redevelopment, LLC, *RFA-2 Application for a Category 1 or Category 2 Gaming License* (Boston: Massachusetts Gaming Commission, 2014).

⁶ Oxford Economics, *Analysis of Expanded Gaming in Connecticut*, p. 10.

⁷ This estimate assumes that slot machine revenues will account for seventy percent of gross gaming revenues and that both tribes will continue to share twenty-five percent (25%) of slot machine revenues with the State of Connecticut. This figure does not include other tax revenue that will be lost as a result of reduced purchases by the casinos from local vendors, reduced local purchases by former employees, and increased social spending on unemployment insurance and public assistance generated by higher unemployment. These estimates will be included in the final report.

Finally, lower gaming and non-gaming revenues at Connecticut's two casinos will immediately and directly translate into additional layoffs and lower employment levels at the two casinos. It is estimated that total job losses due to inter-state revenue displacement will be at least 9,300 jobs.⁸

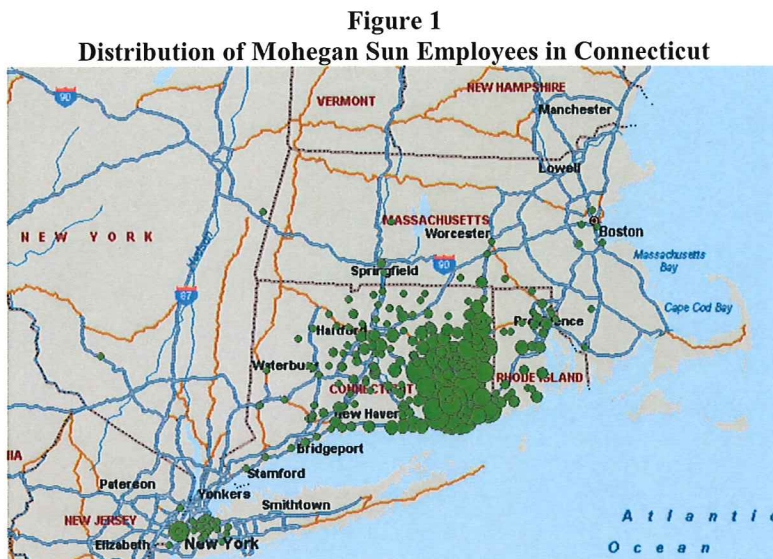
It is estimated that revenue losses of the magnitude discussed earlier will require Connecticut's two casinos to shed an additional 5,812 employees for a loss of \$193 million in annual wages (see Table 3). As Figure 5 illustrates, Connecticut's casinos employ individuals who reside in virtually every corner of the state and, consequently, the impact of these projected layoffs will be felt across the state of Connecticut.

In addition, lost wages by former casino employees will mean less spending by those former employees and this will induce the loss of an addition 1,598 jobs statewide at a cost of \$73.9 million in lost wages (see Table 3 and Figure 1).

Table 3

Employment & Wage Losses in Connecticut Generated by New Massachusetts and New York Casinos (by CY 2019)			
Direct	Indirect	Induced	Total
5,812	1,890	1,598	9,300
192,947,268	86,636,843	73,940,044	353,524,155

Source: IMPLAN (2015); Pyramid Associates (2015).



⁸ The economic impact estimates of 'conservative' estimates insofar as they do not take into account the direct, indirect, and induced economic impacts on contract employees, on-site lease holders, and the impact on other regional tourist industry establishments (e.g., recreation and amusement, food and beverage, retail, and lodging, among others).

Finally, as Figure 2 illustrates, Connecticut's two casinos make local purchases from Connecticut vendors throughout the state. The revenue displaced by the new Massachusetts and New York Casinos will result in a reduction of local non-payroll purchases from Connecticut vendors of approximately \$336.1 million. This reduction in local purchases from Connecticut vendors will result in the loss of an additional 1,890 non-gaming jobs and \$86.6 million in lost wages in Connecticut (see Table 2).

Figure 2
Distribution of Mohegan Sun Vendors in Connecticut



It is possible to mitigate this inter-state revenue transfer, and the resulting jobs losses that will result from it, but 2018 is not far away, so the time for a response is very short; and the sooner Connecticut responds to the threat at its border, the more it may be possible to not just mitigate potential losses, but to restructure and downsize the plans of its new competitors by preempting them.

What Next?

Following our analysis of the potential revenue and jobs displacement impacts of expanded gaming in Massachusetts and New York, we turned our attention to the next question, which is how best to mitigate these impacts on Connecticut and maximize the economic benefit to Connecticut workers, businesses, and taxpayers. This analysis included two scenarios with the first scenario providing a market feasibility and economic impact analysis of SB 1090 An Act Concerning Gaming, which was introduced into the 2015 session of the Connecticut General Assembly “to protect Connecticut jobs and to encourage tourism by allowing the Mashantucket Pequot Tribe and the Mohegan Tribe of Indians of Connecticut to operate casinos in the state.”⁹

This bill would have authorized the two tribes to jointly own and operate up to three commercial casinos at unspecified locations in Connecticut, subject to regulation by the Department of Consumer Protection (DCP). For purposes of the analysis, we assumed satellite casinos in north

⁹ http://www.cga.ct.gov/asp/cgabillstatus/cgabillstatus.asp?selBillType=Bill&which_year=2015&bill_num=1090

central, southwestern, and western Connecticut. We assumed a \$300 million capital investment¹⁰ and identical gaming facilities with 2,000 slot machines, 50 table games, and 15 poker tables, along with modest food and beverage service, including one full-service restaurant and a food court, and a small gift shop and convenience store.

We were also asked to identify the optimal location for a single casino scenario in the event that the General Assembly was unwilling to authorize more than one satellite casino, which in fact turned out to be the case. However, I want to emphasize that in contrast to the misleading assertion by Oxford Economics that my analysis “assumes a location in north central Connecticut,”¹¹ it in fact arrived at the conclusion that north central Connecticut is the optimal single location based on a gravity model and an analysis of real data (which were not available to Oxford Economics).

Our estimate was that single satellite casino in north central Connecticut will achieve its first full calendar year of stabilized revenue in Year 3 (CY 2019) of operations:

- The proposed satellite casino will generate \$300.9 million in gross gaming revenue and an additional \$36.1 million in non-gaming revenue for annual gross revenue of \$337.0 million.
- The proposed north central satellite casino will recapture 52.8% of the gaming revenue and 27.2% of the non-gaming revenue that will otherwise be lost to new casinos in Massachusetts and New York, including the estimated \$252.3 million that Connecticut residents are likely to spend at new Massachusetts and New York casinos, and especially at the planned MGM Springfield.¹²
- The proposed north central satellite casino will capture or recapture approximately \$42.0 million (12.5% of gross revenue) from Massachusetts and New York residents that has been, or will be lost to existing and planned casinos in Massachusetts and New York.
- The proposed north central satellite casino will capture approximately \$6.5 million (1.9% of gross revenue) from out-of-market customers, including pass-through traffic, business, and leisure travelers primarily in the area for purposes other than casino gaming.
- The proposed north central satellite casino will generate approximately \$75.2 million in gaming tax revenue (at 25% of GGR) and an additional \$2.7 million in sales and meals taxes.¹³

¹⁰ This figure includes all pre-development costs (e.g., professional services), construction costs, electronic gaming devices, tables, and other furnishings and equipment.

¹¹ Oxford Economics, *Analysis of Expanded Gaming in Connecticut*, p. 11.

¹² See, Pyramid Associates, LLC, *Mohegan Sun Casino & Foxwoods Resort Casino: Potential Impact of Gaming Expansion in Massachusetts & New York* (March 2015). This report is never referenced by Oxford Economics, which completely avoids the question of MGM Springfield’s displacement impacts on Connecticut’s two casinos.

¹³ The State of Connecticut does not currently receive any revenue from table games or sales and meals taxes from Mohegan Sun Casino or Foxwoods Resort Casino. These figures also do not include personal income tax payments that will not be lost as a result of saving jobs in the state’s casino industry.

What's Wrong With the Oxford Economics Report?

The conclusion by Pyramid Associates that a north central Connecticut casino provides the best opportunity to maximize economic benefits to the state if it pursues a single casino scenario was advanced in 154 pages of analysis, which lays out the methodology, assumptions, key data points, and formulas used to operationalize multiple scenarios in a comprehensive gravity model. However, on March 3, 2016, Oxford Economics, working under the supervision of MGM Springfield released a 34 page executive summary asserting that a southwest Connecticut casino – at the furthest possible distance from MGM Springfield – would provide a superior economic and financial performance compared to a north central Connecticut casino.¹⁴

Let me take a moment to point out just a few of the more significant flaws and misleading methodological ruses deployed in this report:

1. Oxford purports to provide a more “comprehensive” analysis of the New England/New York gaming market, but in fact Oxford “calibrated its model based on Pyramid’s prior published analysis of regional gaming, and Pyramid’s April 2015 estimates of gaming revenue at the Existing CT casinos in the Baseline Scenario with MA and NY, and gaming revenue at the North Central CT Casino.”¹⁵ In fact, if compares their map of the geographic area encompassed by their gravity model (p. 5), it is less comprehensive than the market area analyzed in Pyramid’s March 2015 analysis.¹⁶ Oxford’s statement is not only misleading, it is designed to conceal four very important omissions that necessarily make any purported analysis less accurate:

a. Oxford never references Pyramid’s March 2015 report in its own white paper, because that is the report that calls attention to the devastating impact that MGM Springfield will have on Connecticut’s two existing casinos based on its pillaging of those casinos’ northern and western Connecticut customer base.

b. Pyramid’s March 2015 report also calls attention to the fact that Foxwoods Resort Casino and Mohegan Sun Casino provided us access to their players club data bases and this means that our gravity modeling is based on real data about customer origins, propensity to gamble, and spending patterns, rather than speculative modeling as is the case with Oxford Economics. Quite simply, Oxford Economics does not have access to real gaming market data and, therefore, its modeling is purely speculative. Yet, the speculative foundation of their analysis also makes easy for them to revenue and customer modeling assumptions that generate a predetermined result.

c. This is a particularly vexing question, because Oxford Economics does not provide any window into the underlying assumptions, customer patterns, or spending patterns that generate its models’ imputed outcome. The Oxford Economics report reads like an executive summary, rather than a comprehensive analysis, because it provide no transparency with respect to the size of its hypothetical facilities (i.e., number of slot machines, number of table games, list of non-

¹⁴ Oxford Economics, *Analysis of Expanded Gaming in Connecticut* (Wayne, Pennsylvania, March 2016).

¹⁵ *Ibid.*, pp. 5-6.

¹⁶ Clyde W. Barrow, *Mohegan Sun Casino and Foxwoods Resort Casino: Potential Impact of Gaming Expansion in Massachusetts & New York* (Westport, Massachusetts: Pyramid Associates, LLC, March 2015), p. 46.

gaming amenities), gravity factors, customer distribution patterns, disposable personal income, population age 21+, or anything else that normally generate the outcomes of a gravity model.¹⁷

d. Finally, while they claim to calibrate their model to the Northeastern Gaming Research Project's annual *New England Casino Gaming Update* the data in that report is aggregated at state level, whereas the players club data allows for a more refined and precise analysis at the town/city and even zip code level in terms of customer origins and spending patterns. In other words, Oxford Economics does not know where Mohegan Sun's and Foxwoods Resort's customers originate, or how much customers from different geographic locations spend at those casinos, but we do know – and very precisely.

2. A second major distraction in the Oxford Economic model is that it is comparing 'apples and oranges' in a way clearly calculated to mislead decision-makers. In our modeling, it is clearly stated that we assume building of a \$300 million satellite casino designed to capture or recapture Connecticut's convenience gamblers that will be siphoned off by MGM Springfield. It was stated clearly that such a casino would have 2,000 slot machines, 50 table games, and 15 poker tables, along with modest food and beverage service, including one full-service restaurant and a food court, and a small gift shop and convenience store. Our gravity factors and modeling results are based on gaming facilities of these dimensions as compared to other existing and potential competitors.

However, Oxford Economics' purported results, and the reason for their divergent revenue calculations are because they assume a \$553 million capital investment in the hypothetical north central casino¹⁸ and a \$1.1 billion capital investment in their hypothetical southwestern casino. Consequently, Oxford Economics proposes a southwestern Connecticut casino that is twice as big as their hypothetical north central casino – indeed one that is even larger than their planned MGM Springfield casino, and then miraculously conclude that a larger casino will generate more revenue than a smaller casino! It is no accident that this sleight of hand is buried deep in the middle of paragraphs on p. 25 and p. 27 of their report as they know full well that most readers will never read beyond the executive summary. The Oxford Economic report is a Trojan Horse.

Thank you for your attention. I will gladly answer any questions.

- xxx -

¹⁷ Clyde W. Barrow and David R. Borges. "Gravity Models and Casino Gaming: A Review, Critique, and Modification," *Gaming Research and Review Journal*, Vol. 18, No. 1 (Spring 2014): 49-82.

¹⁸ While Oxford Economics claims to build on Pyramid Associate's baseline assumptions and results, in fact, they assume a north central casino that is nearly twice as large as the one assumed in the Pyramid analysis (\$553 million vs. \$300 million). This hidden assumption is designed to increase that facility's cannibalization of the two existing Connecticut casinos, while nearly quadrupling the size of the hypothetical southwestern Connecticut casino gives it a gravity and revenue generating capacity that far exceeds their assumed north central Connecticut casino.